UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 29, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

Virginia	**54-0135270**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3525 Fairystone Park Highway
Bassett, Virginia 24055
(Address of principal executive offices)
(Zip Code)

(276) 629-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

At September 30, 2009, 11,454,716 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
FOR THE PERIODS ENDED AUGUST 29, 2009 AND AUGUST 30, 2008—UNAUDITED
(In thousands except per share data)

	Quarter Ended		Nine Months Ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Net sales	$ 57,670	$ 70,159	$ 173,199	$ 226,620
Cost of sales	31,684	42,105	98,037	136,421
Gross profit	25,986	28,054	75,162	90,199
Selling, general and administrative expenses	27,195	32,247	91,903	95,509
Proxy defense costs	—	—	—	1,418
Restructuring, asset impairment charges and unusual gain, net	—	240	1,388	(718)
Lease exit costs	1,777	640	2,062	640
Loss from operations	(2,986)	(5,073)	(20,191)	(6,650)
Other loss, net	(846)	(745)	(5,330)	(460)
Loss before income taxes	(3,832)	(5,818)	(25,521)	(7,110)
Income tax benefit	386	3,166	256	4,582
Net loss	$ (3,446)	$ (2,652)	$ (25,265)	$ (2,528)
Retained earnings-beginning of period	51,341	126,119	73,160	131,725
Cumulative effect of change in accounting principle—Adoption of FIN 48	—	—	—	(746)
Cash dividends				
Regular dividend	—	(2,597)	—	(7,581)
Special dividend	—	(8,734)	—	(8,734)
Retained earnings-end of period	$ 47,895	$ 112,136	$ 47,895	$ 112,136
Basic loss per share	$ (0.30)	$ (0.23)	$ (2.21)	$ (0.22)
Diluted loss per share	$ (0.30)	$ (0.23)	$ (2.21)	$ (0.22)
Dividends per share				
Regular dividend	$ —	$ 0.225	$ —	$ 0.625
Special dividend	$ —	$ 0.750	$ —	$ 0.750

The accompanying notes to condensed consolidated financial statements are an integral part of the condensed consolidated financial statements.

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PART I—FINANCIAL INFORMATION—CONTINUED
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BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AUGUST 29, 2009 AND NOVEMBER 29, 2008
(In thousands)

	(Unaudited) August 29, 2009	November 29, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 17,146	$ 3,777
Accounts receivable, net	35,786	40,793
Inventories	37,640	42,293
Other current assets	8,997	13,628
Total current assets	99,569	100,491
Property and equipment		
Cost	153,263	156,068
Less accumulated depreciation	100,392	98,913
Property and equipment, net	52,871	57,155
Investments	18,514	35,060
Retail real estate	29,154	29,588
Notes receivable, net	9,035	13,608
Other	9,475	9,140
	66,178	87,396
Total assets	$ 218,618	$ 245,042
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 15,817	$ 18,747
Accrued compensation and benefits	5,218	4,618
Customer deposits	5,642	6,725
Dividends payable	—	1,142
Other accrued liabilities	12,541	10,977
Current portion of real estate notes payable	8,570	812
Total current liabilities	47,788	43,021
Long-term liabilities		
Post employment benefit obligations	12,244	12,829
Bank debt	18,000	19,000
Real estate notes payable	12,989	21,346
Distributions in excess of affiliate earnings	11,535	11,910
Other long-term liabilities	8,902	6,757
	63,670	71,842
Stockholders' equity		
Common stock	57,223	57,102
Retained earnings	47,895	73,160
Additional paid-in-capital	437	346
Accumulated other comprehensive income (loss)	1,605	(429)
Total stockholders' equity	107,160	130,179
Total liabilities and stockholders' equity	$ 218,618	$ 245,042

The accompanying notes to condensed consolidated financial statements are an integral part of the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED AUGUST 29, 2009 AND AUGUST 30, 2008—UNAUDITED
(In thousands)

	Nine Months Ended	
	August 29, 2009	August 30, 2008
Operating activities:		
Net loss	$ (25,265)	$ (2,528)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,966	5,732
Equity in undistributed income of investments and unconsolidated affiliated companies	(1,582)	(2,450)
Provision for restructuring, asset impairment charges and unusual gains, net	1,388	(718)
Impairment of real estate	—	499
Lease exit costs	2,062	640
Provision (income) for lease and loan guarantee	2,428	(194)
Provision for losses on accounts and notes receivable	12,971	6,059
Other than temporary impairment of investments	1,255	54
Realized income from investments	(607)	(980)
Deferred income taxes	—	(3,478)
Payment to terminate lease	(400)	—
Other, net	(303)	277
Changes in operating assets and liabilities:		
Accounts receivable	(5,701)	(9,789)
Inventories	6,761	8,436
Other current assets	4,915	(1,261)
Accounts payable and accrued liabilities	(4,704)	(12,816)
Net cash used in operating activities	(1,816)	(12,517)
Investing activities:		
Purchases of property and equipment	(854)	(3,006)
Purchases of retail real estate	(2)	(630)
Proceeds from sales of property and equipment	129	2,205
Acquisition of retail licensee stores, net of cash acquired	(481)	(216)
Proceeds from sales of investments	22,310	31,829
Purchases of investments	(6,295)	(4,212)
Dividends from affiliates	2,909	6,091
Net cash received on licensee notes	515	790
Other, net	248	26
Net cash provided by investing activities	18,479	32,877
Financing activities:		
Net borrowings (repayments) under revolving credit facility	(1,000)	2,000
Repayments of real estate notes payable	(593)	(590)
Issuance of common stock	72	123
Repurchases of common stock	(75)	(3,622)
Cash dividends	(1,142)	(16,087)
Other	(556)	(150)
Net cash used in financing activities	(3,294)	(18,326)
Change in cash and cash equivalents	13,369	2,034
Cash and cash equivalents—beginning of period	3,777	3,538
Cash and cash equivalents—end of period	$ 17,146	$ 5,572

The accompanying notes to condensed consolidated financial statements are an integral part of the condensed consolidated financial statements.

PART I—FINANCIAL INFORMATION—CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED
AUGUST 29, 2009
(Dollars in thousands except share and per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The condensed consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated ("Bassett", "we", "our", or the "Company") and our majority owned subsidiaries of which we have operating control. The equity method of accounting is used for our investments in affiliated companies in which we exercise significant influence but do not maintain control, unless consolidated pursuant to Financial Accounting Standards Board ("FASB") Revised Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN46R").

For comparative purposes, certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

During the first and second quarter of 2009, the Staff of the Securities and Exchange Commission (the "SEC") performed a review of our Form 10-K for the year ended November 29, 2008 and subsequently our Form 10-Q for the quarter ended February 28, 2009. Among other items, the Staff identified issues with our initial valuation of notes receivable due from our licensees (primarily for amounts converted from past due accounts receivable due from them) and our methodology for determining reserves for our accounts receivable, notes receivable, and loan guarantees. As a result of the SEC's comments, we reviewed our accounting policies and processes in these areas previously mentioned and determined that we should have recorded lower values for certain of our notes receivable upon inception and, subsequently, recorded additional reserves on those notes due to an error in how we determined an appropriate market rate of interest for those notes. In addition, we also concluded that we should have recognized revenue for certain customers on a cost recovery basis for shipments beginning in the first quarter of 2009 and that additional reserves for loan guarantees should be established. Therefore, we recorded an additional $3,280 of net charges in the quarter ended February 28, 2009 to account for these lower note values, increased reserves and reduced revenue and filed an amended Form 10-Q for the quarter then ended. Of the amount recorded, $1,936 related to periods prior to the quarter ended February 28, 2009. However, based on our consideration of the underlying quantitative and qualitative factors surrounding the prior period errors, the effects on the previous annual and interim periods were determined to be immaterial and, therefore, periods prior to the quarter ended February 28, 2009 have not been restated.

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the quarter and nine months ended August 29, 2009 are not necessarily indicative of results for the fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 29, 2008.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective

PART I—FINANCIAL INFORMATION—CONTINUED
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quarter. During the fourth quarter of 2008, we recorded a $23,383 charge to establish a valuation allowance against substantially all of our deferred tax assets as we were in a cumulative loss position for the past three years, which is considered significant negative evidence as to whether our deferred tax assets will be realized. For the quarter and nine months ended August 29, 2009, a tax benefit on the losses generated was not recorded since the Company remained in a cumulative loss position, however, a tax benefit of $451 was recorded related to the reduction in income tax reserves resulting from the lapse of the statute of limitations on certain state unrecognized tax benefits, partially offset by the accrual of income taxes to be paid in certain states and penalties and interest associated with certain unrecognized tax benefits.

3. Revenue Recognition

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer.

Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB 104”) outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller’s price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured. SAB 104 further asserts that if collectibility of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. Currently, there are five dealers where revenue is being recognized on a cost recovery basis. The following table details the total revenue and cost deferred for each period presented:

	Quarter ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Revenue deferred	$ 1,467	$ —	$ 6,975	$ —
Cost deferred	1,028	—	4,883	—

4. Inventories

Inventories are valued at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out (LIFO) method. The costs for imported inventories are determined using the first-in, first-out (FIFO) method.

Inventories were comprised of the following:

	August 29, 2009	November 29, 2008
Wholesale finished goods	$ 23,800	$ 29,092
Work in process	221	251
Raw materials and supplies	7,251	7,853
Retail merchandise	15,402	14,995
Total inventories on first-in, first-out method	46,674	52,191
LIFO adjustment	(6,674)	(7,393)
Reserve for excess and obsolete inventory	(2,360)	(2,505)
	$ 37,640	$ 42,293

PART I—FINANCIAL INFORMATION—CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED—CONTINUED
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We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand, market conditions and the respective valuations at LIFO. The need for these reserves is primarily driven by the normal product life cycle. As products mature and sales volumes decline, we rationalize our product offerings to respond to consumer tastes and keep our product lines fresh. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required. In determining reserves, we calculate separate reserves on our wholesale and retail inventories. Our wholesale inventories tend to carry the majority of the reserves for excess quantities and obsolete inventory due to the nature of our distribution model. These wholesale reserves primarily represent design and/or style obsolescence. Typically, product is not shipped to our retail warehouses until a consumer has ordered and paid a deposit for the product. We do not typically hold retail inventory for stock purposes. Consequently, floor sample inventory and inventory for delivery to customers account for the majority of our inventory at retail. Retail reserves are based on accessory and clearance floor sample inventory in our stores and any inventory that is not associated with a specific customer order in our retail warehouses.

Activity in the reserves for excess quantities and obsolete inventory by segment are as follows:

	Balance at November 29, 2008	Additions Charged to Expense	Deductions	Balance at August 29, 2009
Wholesale	$ 2,071	$ 1,848	$ (1,994)	$ 1,925
Retail	434	341	(340)	435
	$ 2,505	$ 2,189	$ (2,334)	$ 2,360

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2009 and do not anticipate that our methodology is reasonably likely to change in the future. A plus or minus 10% change in our inventory reserves would not have been material to our financial statements for the periods presented.

5. Notes Receivable

Our notes receivable consist of the following:

	August 29, 2009	November 29, 2008
Notes receivable	$ 21,491	$ 21,801
Allowance for doubtful accounts	(5,150)	(3,604)
Discounts on notes receivable	(5,400)	(2,992)
Notes receivable, net	10,941	15,205
Less: current portion of notes receivable	(1,906)	(1,597)
Long term notes receivable	$ 9,035	$ 13,608

Our notes receivable, which bear interest at rates ranging from 8.25% to 2%, consist primarily of amounts due from our licensees from loans made by the Company to help licensees fund their operations. Approximately 67% and 65% of our notes receivable represent conversions of past due accounts receivable at August 29, 2009 and November 29, 2008, respectively. At the inception of the note receivable, and in accordance with the provisions of Accounting Principles Board Opinion No. 21, *Interest on Receivables and Payables*, we determine whether the note bears a market rate of interest. A discount on the note is recorded if we determine that the note

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bears an interest rate below the market rate. We amortize the related note discount over the contractual term of the note and cease amortizing the discount to interest income when the present value of expected future cash flows is less than the carrying value of the note. Interest income on the notes, which is included in other loss, net, is as follows:

	Quarter ended		Nine months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Interest income	$ 166	$ 187	$ 525	$ 561

During the quarter ended February 28, 2009, as part of the improvement plans with one of our licensees, we converted $1,100 of past due trade accounts receivable and refinanced an existing note with a remaining balance of $224 into a $1,324 long-term note bearing interest at 4.75%. This note requires interest only payments through 2011 and interest and principal payments due monthly through its maturity on December 31, 2016.

During the quarter ended May 30, 2009, we converted $550 and $250 of past due trade accounts receivable for two licensees to 4.75% long-term interest bearing notes. The $550 note requires interest only payments through March 16, 2012, and principal and interest payments due monthly through its maturity date of March 16, 2015. The $250 note requires interest only payments through March 16, 2011, with the remaining interest and principal due on April 16, 2011.

The initial carrying value of the notes is determined using present value techniques which consider the fair market rate of interest based on the licensee's risk profile and estimated cash flows to be received. We considered the stated interest rates to be below market due to the overall lack of availability of credit in the financial markets. The following table presents summary fair value information at the inception of these notes:

Face Value	Discount Rate	Fair Value
$1,324	19.50%	$672
550	5.25%	539
250	19.61%	187

In addition, the estimated fair value of our notes receivable portfolio at August 29, 2009 was $10,060. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level III as specified in the fair value hierarchy in Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurement* ("SFAS 157"). See Note 15.

On a quarterly basis and in accordance with the provisions of SFAS No. 114, *Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15* ("SFAS 114"), we examine these notes for evidence of impairment, considering factors such as licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee, licensee sales and any underlying collateral. After considering these factors, should we believe that all or a portion of the expected cash flows attributable to the note receivable will not be received, we record an impairment charge on the note by estimating future cash flows and discounting them at the effective interest rate. Any difference between the estimated discounted cash flows and the carrying value of the note is recorded as an increase to the allowance for doubtful accounts.

These notes, as well as our accounts receivable, are secured by the filing of security statements in accordance with the Uniform Commercial Code and/or real estate owned by the note holder and in some cases, personal guarantees by our licensees.

PART I—FINANCIAL INFORMATION—CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED—CONTINUED
AUGUST 29, 2009
(Dollars in thousands except share and per share data)

6. Unconsolidated Affiliated Companies

The International Home Furnishings Center ("IHFC") owns and leases out floor space in a showroom facility in High Point, North Carolina. We owned 46.85% of IHFC at August 29, 2009 and November 29, 2008, and accounted for the investment using the equity method since we do not maintain operating control of IHFC. Our investment reflects a credit balance of $11,535 and $11,910 at August 29, 2009 and November 29, 2008, respectively, which is reflected in the liabilities section in the accompanying condensed consolidated balance sheets as "distributions in excess of affiliate earnings". Based on current and expected future earnings of IHFC, we believe the market value of this investment is positive and substantially greater than its negative book value at August 29, 2009. This negative book value resulted from IHFC's refinancing of its real estate based on the market value of the property and using the proceeds to pay a special dividend to its owners. We recorded income and received dividends from IHFC as follows:

	Quarter ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Income recorded	$ 979	$ 1,470	$ 3,187	$ 3,896
Dividends received	—	3,280	2,811	6,091

Summarized unaudited income statement information for IHFC for its first nine months of 2009 and 2008, respectively, is as follows:

	2009	2008
Revenue	$ 29,194	$ 32,505
Operating income	15,344	17,732
Net income	6,802	8,316

In addition to our investment in IHFC, we have a 49% ownership interest in Zenith Freight Lines, LLC ("Zenith"). We recorded income (loss) and received dividends from Zenith as follows:

	Quarter ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Income (loss)	$ 69	$ (9)	$ 270	$ (351)
Dividends received	—	—	98	—

7. Real Estate Notes Payable and Other Long-Term Debt

Certain of our retail real estate properties have been financed through commercial mortgages with interest rates ranging from 6.73% to 9.18%. These mortgages are collateralized by the respective properties with net book values totaling approximately $31,038 and $29,668 at August 29, 2009, and November 29, 2008, respectively. The current portion of these mortgages, $8,570 and $812 as of August 29, 2009 and November 29, 2008, respectively, has been included as a current liability in the accompanying condensed consolidated balance sheets. The long-term portion, $12,989 and $21,346 as of August 29, 2009 and November 29, 2008, respectively, is presented as real estate notes payable in the condensed consolidated balance sheets. The fair value of these mortgages was $21,990 and $20,036 at August 29, 2009 and November 29, 2008, respectively. In determining the fair value the Company utilized current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level III as specified in the fair value hierarchy in SFAS No. 157, *Fair Value Measurement*, see Note 15.

PART I—FINANCIAL INFORMATION—CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
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AUGUST 29, 2009
(Dollars in thousands except share and per share data)

Our revolving credit facility contains, among other provisions, certain defined financial requirements including a minimum level of Tangible Net Worth, as defined in the credit agreement. As disclosed in our Form 10-Q for the quarter ended February 28, 2009, we began discussions with our lender during the second quarter to amend our credit facility, due to the fact we were in violation of that covenant as of February 28, 2009. We successfully obtained a waiver of the default and an amendment to the credit facility on October 6, 2009. The amendment provides for a variable interest rate of LIBOR plus 2.75% with a 4.25% minimum rate and resets the Tangible Net Worth requirement at a minimum of $95,000 for the remainder of fiscal 2009 and $90,000 for fiscal 2010. It decreases our total facility from $45,000 to $30,000. Borrowings under the facility, which matures November 30, 2010, totaled $18,000 and $19,000 at August 29, 2009, and November 29, 2008, respectively, and are secured by a pledge of certain marketable securities and substantially all of our receivables and inventories. The Company has approximately $1,200 available for borrowing under the facility, after deducting amounts for outstanding letters of credit and guarantees under the licensee loan program.

8. Comprehensive Income

The following table provides a summary of total comprehensive income (loss):

	Quarter ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Net loss	$ (3,446)	$ (2,652)	$ (25,265)	$ (2,528)
Other comprehensive income (loss):				
Unrealized holding gains (losses)	592	(822)	2,015	(2,303)
Amortization associated with SERP Plan	7	6	19	20
Total comprehensive loss	$ (2,847)	$ (3,468)	$ (23,231)	$ (4,811)

9. Licensee Acquisitions

We do not actively pursue acquisitions but are sometimes approached by our licensees to acquire all or certain stores operated by the licensee. We evaluate such opportunities considering, among other things, the viability of the market and our participation in the store real estate. During the quarter and nine months ended August 29, 2009, we acquired one store and eight stores, respectively. Many of these acquisitions were funded through existing accounts receivable. We did not acquire any stores during the nine months ended August 30, 2008. The following is a collective summary of the purchase price allocations for those acquisitions:

	Quarter ended August 29, 2009	Nine months ended August 29, 2009
Consideration given	$ 156	$ 2,035
Net assets acquired:		
Inventory	344	2,107
Fixed assets/other	121	756
Various liabilities	(309)	(828)
Goodwill	$ —	$ —

PART I—FINANCIAL INFORMATION—CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED—CONTINUED
AUGUST 29, 2009
(Dollars in thousands except share and per share data)

10. Restructuring, Asset Impairment Charges and Unusual Gain, net

Restructuring, asset impairment charges and unusual gain, net consists of the following:

	Quarter ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Proxy defense costs	$ —	$ —	$ —	$ 1,418
Restructuring, asset impairment charges and unusual items, net				
Impairment of leasehold improvements	$ —	$ 240	$ 1,068	$ 624
Severance charges	—	—	320	—
Gain on sale of airplane	—	—	—	(1,342)
	$ —	$ 240	$ 1,388	$ (718)

In 2009, we recorded non-cash asset impairment charges for the write-off of the remaining leasehold improvements for our Arlington, Texas and Alpharetta, Georgia retail stores as well as the closure of our retail office in Greensboro, North Carolina. In addition, we recorded a non-cash impairment charge in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, to write-down the carrying value of our long-lived assets associated with an underperforming retail location. Lastly, we recorded severance charges associated with a reduction in workforce announced in March 2009.

11. Lease Exit Costs

We recorded lease exit costs for the quarter and nine months ended August 29, 2009 of $1,777 and $2,062, respectively, associated with the closure of two retail stores in August 2009 and the closure of our retail office in Greensboro, North Carolina in May 2009. During the third quarter of 2008, we recorded lease exit costs of $640 associated with the closure of a retail store.

12. Contingencies

We are involved in various legal and environmental matters, which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, we believe that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of licensee-owned stores. We had obligations of $83,286 and $96,773 at August 29, 2009 and November 29, 2008, respectively, for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of $10,012 and $11,605 at August 29, 2009, and November 29, 2008, respectively.

We have also guaranteed loans to certain of our licensees to finance initial inventory packages and other operating requirements for those stores. Loan guarantees generally have three year terms. The total contingent liabilities with respect to these loan guarantees as of August 29, 2009, and November 29, 2008, was $5,675 and $7,869, respectively.

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In the event of default by an independent dealer under the guaranteed lease or loan, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease and loan guarantees (an estimate of the cost to the Company to perform on these guarantees) at August 29, 2009 and November 29, 2008, was $3,562 and $2,005, respectively, and is recorded in other accrued liabilities and other long-term liabilities in the accompanying condensed consolidated balance sheets

13. Post Employment Benefit Obligations

We have an unfunded Supplemental Retirement Income Plan (the "Supplemental Plan") that covers one current and certain former executives. The liability for this plan was $10,157 and $10,671 as of August 29, 2009 and November 29, 2008, respectively, and is recorded as follows in the consolidated balance sheets:

	August 29, 2009	November 29, 2008
Other accrued liabilities	$ 1,189	$ 1,189
Post employment benefit obligations	8,968	9,482
Total pension liability	$ 10,157	$ 10,671

Components of net periodic pension costs are as follows:

	Quarter Ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Service cost	$ 9	$ 13	$ 27	$ 41
Interest cost	157	158	471	474
Amortization of transition obligation	11	11	33	32
Net periodic pension cost	$ 177	$ 182	$ 531	$ 547

We have an unfunded Deferred Compensation Plan that covers one current and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. We recognized expense of $114 for the third quarter of both 2009 and 2008 and $342 for both of the nine months ended August 29, 2009 and August 30, 2008. Our liability under this plan was $3,276 and $3,347 as of August 29, 2009 and November 29, 2008, respectively, and is reflected in post employment benefit obligations.

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14. Earnings Per Share

The following reconciles basic and diluted loss per share:

	Net Loss	Weighted Average Shares	Loss per share
For the quarter ended August 29, 2009:			
Basic loss per share	$ (3,446)	11,438,848	$ (0.30)
Add effect of dilutive securities:			
Options*	—	—	—
Diluted loss per share	$ (3,446)	11,438,848	$ (0.30)
For the quarter ended August 30, 2008:			
Basic loss per share	$ (2,652)	11,601,118	$ (0.23)
Add effect of dilutive securities:			
Options*	—	—	—
Diluted loss per share	$ (2,652)	11,601,118	$ (0.23)
For the nine months ended August 29, 2009:			
Basic loss per share	$(25,265)	11,418,005	$ (2.21)
Add effect of dilutive securities:			
Options*	—	—	—
Diluted loss per share	$(25,265)	11,418,005	$ (2.21)
For the nine months ended August 30, 2008:			
Basic loss per share	$ (2,528)	11,725,600	$ (0.22)
Add effect of dilutive securities:			
Options*	—	—	—
Diluted loss per share	$ (2,528)	11,725,600	$ (0.22)

* Due to the net loss, the potentially dilutive securities would have been anti-dilutive and are therefore excluded.

Options to purchase approximately 1,159,000 and 1,273,000 shares of common stock at August 29, 2009 and August 30, 2008, respectively, were excluded from the computation as their effect is anti-dilutive.

15. Financial Instruments and Fair Value Measurements

Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable, investment securities, cost and equity method investments, accounts payable and long-term debt. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value. Our cost and equity method investments generally involve entities for which it is not practical to determine fair values.

Our investments consist of our investment in the Bassett Industries Alternative Asset Fund LP ("BIAAF") with a value of $5,182 and $23,053 and a portfolio of marketable securities with a value of $13,332 and $12,007 as of August 29, 2009 and November 29, 2008, respectively. Collectively, these are recorded in our condensed consolidated balance sheets under the caption of "Investments."

Our marketable securities consist of a combination of equity and fixed income securities, including money market funds. We classify our marketable securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income. We measure the fair value of our marketable securities in accordance with of SFAS No. 157.

Although we have the ability to buy and sell the individual marketable securities, we are required to maintain a certain dollar amount in those brokerage accounts subject to the Securities Account Control Agreement as part of the revolving credit facility, see also Note 7.

As of August 29, 2009, available-for-sale securities consisted of the following:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	$10,140	$1,789	$ (71)	$11,858
Fixed income securities	1,436	38	—	1,474
	$11,576	$1,827	$ (71)	$13,332

As of November 29, 2008, available-for-sale securities consisted of the following:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Equity securities	$10,992	$577	$(1,008)	$10,561
Fixed income securities	1,446	14	(14)	1,446
	$12,438	$591	$(1,022)	$12,007

The realized earnings from our marketable securities portfolio include realized gains and losses, based upon specific identification, and dividend and interest income. Realized earnings or losses were $145 and $607 for the quarter and nine months ended August 29, 2009, respectively, and $(74) and $1,493 for the quarter and nine months ended August 30, 2008, respectively. These amounts are recorded in other loss, net in our condensed consolidated statements of operations and retained earnings. Of the $1,474 in fixed income securities, $335 matures in less than five years with the remainder being long-term and maturing in greater than 20 years.

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In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), we review our marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, we write down the cost basis of the security and include the loss in current earnings as opposed to an unrealized holding loss. Due to the market fluctuations during the last half of 2008 and the first quarter of 2009 many of our holdings sustained significant losses. Consequently, we recorded losses of zero and $1,255 for the quarter and nine months ending August 29, 2009 and $54 for both the quarter and nine months ended August 30, 2008 that are considered to be other than temporary.

During the second quarter of 2009, in order to provide some stability to our portfolio in the midst of volatile and often erratic financial markets, we instructed one of our two investment advisors to liquidate substantially all of our equity holdings and to invest the proceeds in cash and money market accounts.

The Company accounts for items measured at fair value in accordance with SFAS 157. SFAS 157 defines fair value, provides a consistent framework for measuring fair value under accounting principles generally accepted in the United States and expands fair value financial statement disclosure requirements. SFAS 157 does not require any new fair value measurements. It applies only to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments (SFAS 123R *Share- Based Payment*.)

SFAS 157's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. SFAS 157 classifies these inputs into the following hierarchy:

Level 1 Inputs—Quoted prices for identical instruments in active markets.

Level 2 Inputs—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs—Instruments with primarily unobservable value drivers.

Our investment in the BIAAF is valued at fair value primarily based on the net asset values which are determined by the investee fund, based on its underlying financial instruments as provided by the general partner. Investment balances by fund are presented below.

	August 29, 2009	November 29, 2008
Styx Partners, L.P.	$ —	$ 13,461
HBK Fund, L.P.	3,783	6,022
DB Zwirn Special Opportunities Fund, L.P.	1,374	3,254
Cash and Other	25	316
	$ 5,182	$ 23,053

We have requested our general partner to attempt to liquidate all of our investments in BIAAF. During the quarter and nine months ended August 29, 2009, we received $600, and $15,978, respectively, for liquidations associated with Styx Partners, L.P., which liquidated our entire investment in Styx Partners, L.P., and HBK

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Fund, L.P. Due to the level of redemption requests, we have been informed that the remainder of the investment in HBK Fund, L.P. should be redeemed with quarterly distributions over the next twelve to fifteen months. We also have been informed that due to the magnitude of other redemption requests on the DB Zwirn Special Opportunities Fund, L,P., it is likely that it will be three to four years before our investment is fully redeemed. We expect to receive the total stated net asset value for the HBK and Zwirn investments, subject to any further change in the net asset value due to market variations.

The fair values of our marketable securities and our investment in BIAAF based on the level of inputs are summarized below:

	Level 1	Level 2	Level 3	Fair Value
Assets				
Marketable Securities	$13,332	—	—	$ 13,332
Investment in BIAAF	—	—	5,182	5,182
Total Assets	$13,332	—	$ 5,182	$ 18,514

The table below provides a reconciliation of all assets measured at fair value on a recurring basis which use level three or significant unobservable inputs for the quarter ended August 29, 2009.

	Fair value Measurements Using Significant Unobservable Inputs (Level 3 Inputs) Investment in BIAAF
Balance at November 29, 2008	$ 23,053
Total losses included in earnings related to change in underlying net assets	(1,874)
Tax withholdings by general partner	(19)
Redemptions	(15,978)
Transfers in and/or out of Level 3	—
Balance August 29, 2009	$ 5,182

The carrying values and approximate fair values of certain financial instruments as of August 29, 2009 and November 29, 2008 were as follows:

	August 29, 2009		November 29, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents	$ 17,146	17,146	$ 3,777	$ 3,777
Accounts receivable, net	35,786	35,786	40,793	40,793
Notes receivable, net	10,941	10,060	15,205	15,205
Investments	18,514	18,514	35,060	35,060
Liabilities:				
Accounts payable	$ 15,817	15,817	$ 18,747	$ 18,747
Real estate notes payable	21,559	21,990	22,158	20,036
Bank debt	18,000	18,000	19,000	19,000

16. Recent Accounting Pronouncements

In June of 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS 167"). SFAS 167 expands the scope of FIN46R to include entities which had been considered qualifying special purpose entities prior to elimination of the concept by SFAS 166, *Accounting for Transfers of Financial Assets*. SFAS 167 requires entities to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The enterprise is required to assess, on an ongoing basis, whether it is a primary beneficiary or has an implicit responsibility to ensure that a variable interest entity operates as designed. SFAS 167 changes the previous quantitative approach for determining the primary beneficiary to a qualitative approach based on which entity (a) has the power to direct activities of a variable interest entity that most significantly impact economic performance and (b) has the obligation to absorb losses or receive benefits that could be significant to the variable purpose entity. SFAS 167 requires enhanced disclosures that will provide investors with more transparent information about an enterprise's involvement with a variable interest entity. SFAS 167 is effective for each entity's first annual reporting period that begins after November 15, 2009, and for interim periods within that annual period. We are currently evaluating the impact, if any, of adoption of SFAS No. 167 on our financial statements.

In May of 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 sets forth the period following the balance sheet date during which management should evaluate subsequent events for disclosure, the circumstances under which events should be recognized for disclosure, and the disclosure which should be made. SFAS 165 introduces the concept of a date following the balance sheet date when financial statements are available to be issued. Thus users of financial statements are put on notice of the date after which subsequent events are not reported. SFAS 165 is effective with all interim or annual financial statements for periods ending after June 15, 2009. The adoption of SFAS 165 did not impact the financial position or results of operations for the period ended August 29, 2009. We evaluated all events or transactions that occurred from August 29, 2009 through October 8, 2009, the date these financial statements were issued.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Financial Disclosures about Fair Value of Financial Instruments* ("FSP 107-1"), which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP 107-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009 and the Company adopted the provisions of this statement effective August 29, 2009. As a result of the adoption of this statement, the Company has expanded its disclosures regarding the fair value of financial instruments within Note 15.

In April 2009, the FASB issued FSP FAS 115-2, FAS 124-2 and EITF 99-20-2, *Recognition and Presentation of Other-Than-Temporary-Impairment* ("FSP 115-2") which clarifies other-than-temporary impairment. FSP 115-2 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under FSP 115-2 declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to

other factors is recognized in other comprehensive income. FSP 115-2 is effective for interim and annual periods ending after June 15, 2009. The Company has adopted the provisions of FSP 115-2 and there was no material impact on the Company's financial condition or results of operations.

17. Segment Information

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (independently-owned stores, Company-owned retail stores and partnership licensees) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses.

Our retail segment consists of Company-owned stores. Our retail segment includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.

Our investments/real estate segment consists of our investments (BIAAF and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee stores. Although this segment does not have operating earnings, income or loss from the segment is included in other income in our condensed consolidated statements of operations and retained earnings. Our equity investment in IHFC is not included in the identifiable assets of this segment since it has a negative book value and is therefore included in the long-term liabilities section of our condensed consolidated balance sheet. See Note 6 for a further discussion of IHFC.

Inter-company net sales elimination represents the elimination of wholesale sales to our Company-owned stores. Inter-company income elimination represents the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the end retail consumer.

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The following table presents our segment information:

	Quarter Ended		Nine Months Ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Net Sales				
Wholesale	$ 41,771	$ 59,466	$ 134,731	$ 190,766
Retail	28,484	24,004	77,887	74,529
Inter-company elimination	(12,585)	(13,311)	(39,419)	(38,675)
Consolidated	$ 57,670	$ 70,159	$ 173,199	$ 226,620
Income (loss) from Operations				
Wholesale	$ 290	$ (995)	$ (10,440)	$ 2,559
Retail	(1,985)	(2,807)	(6,652)	(7,222)
Inter-company elimination	486	(391)	351	(647)
Proxy defense costs	—	—	—	(1,418)
Restructuring, asset impairment charges and unusual gains, net	—	(240)	(1,388)	718
Lease exit costs	(1,777)	(640)	(2,062)	(640)
Other loss, net	(846)	(745)	(5,330)	(460)
Consolidated loss before income taxes	$ (3,832)	$ (5,818)	$ (25,521)	$ (7,110)
Depreciation and Amortization				
Wholesale	$ 639	$ 789	$ 1,990	$ 2,656
Retail	670	562	2,062	1,780
Investments/real estate	327	432	914	1,296
Consolidated	$ 1,636	$ 1,783	$ 4,966	$ 5,732
Capital Expenditures				
Wholesale	$ 32	$ 168	$ 268	$ 624
Retail	111	1,635	586	2,382
Investments/real estate	—	132	2	630
Consolidated	$ 143	$ 1,935	$ 856	$ 3,636

	As of August 29, 2009	As of November 29, 2008
Identifiable Assets		
Wholesale	$ 118,170	$ 126,619
Retail	52,761	53,775
Investments/real estate	47,687	64,648
Consolidated	$ 218,618	$ 245,042

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as the Company's 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the Company's products and services, industry outlook, and business trends.

Bassett Furniture Industries Inc., ("Bassett", "we", "our", "the Company") based in Bassett, Va., is a leading retailer, manufacturer and marketer of branded home furnishings. Bassett's products are sold primarily through Bassett Furniture Direct and Bassett Home Furnishings ("BHF") stores, with secondary distribution through multi-line furniture stores, many with in-store Bassett Design Centers. Bassett baby cribs and casegoods are sold through specialty stores and mass merchants.

Bassett Furniture Direct ("BFD" or "store") was created in 1997 as a single source home furnishings retail store that provides a unique combination of stylish, well-made furniture and accessories with a high level of customer service. This service includes complimentary room planning, in-home design visits, quick delivery, and custom-order furniture. The retail store program had 106 stores in operation as of August 29, 2009, 35 of which we own and operate. Of the 35 Company-owned stores 26 were comparable stores (stores open longer than one year).

During the nine months ended August 29, 2009, six licensee stores completed liquidation sales and closed. Additionally, one licensee store, in which we have no real estate interest, began a going out of business inventory liquidation sale late in the third quarter which should be completed during the fourth quarter of 2009. Further store closures are possible during the remainder of 2009 that could result in lease exit charges or increases in our lease guarantee reserve.

We also closed four Corporate-owned stores during the third quarter of 2009 and recorded $1,777 in lease exit charges. We expect to have between 100 and 105 stores by the end of 2009.

The following table summarizes the changes in store count during the nine months ended August 29, 2009:

	November 29, 2008	Closures	Transfers	August 29, 2009
Licensee-owned stores	84	(6)	(8)	70
Company-owned stores	31	(4)	8	35
Total	115	(10)	—	105

We define imported product as fully finished product that is sourced internationally. In the first nine months of 2009, 52% of our wholesale sales were of imported product compared to 55% in the first nine months of 2008. Our domestic product includes certain products that contain components which are also sourced internationally. We continue to believe that a blended strategy including domestically produced products, primarily of a custom-order nature, combined with importing certain product categories and major collections provides the best combination of value and quality to our customers.

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Overall conditions for our industry and our Company have been difficult over the past several years and have persisted throughout the first nine months of 2009. New housing starts are down significantly and consumers continue to be faced with general economic uncertainty fueled by difficult consumer credit markets and lagging consumer confidence. All of these factors have significantly impacted “big ticket” consumer purchases such as furniture. Consequently, this has put pressure on certain of our dealers’ ability to generate adequate profits to fully pay us for the furniture we have sold to them. As a result, we incurred significantly increased bad debt and notes receivable valuation charges related losses during the second half of 2008 as well as during the first half of 2009. For the third quarter of 2009, we recorded $1,230 in bad debt and notes receivable valuation charges as we have worked diligently to control our accounts and notes receivable exposure to our licensees. Although management will continue to work closely with our licensees to ensure the success of both the licensee and Bassett, further store closures are possible during the remainder of 2009 and beyond that could result in lease exit charges or increases in our lease guarantee reserve. We also may increase the number of Company-owned stores during the remainder of 2009, through acquisitions of certain licensee-owned stores. During the first nine months of 2009, we acquired a total of eight licensee stores in the Scottsdale and Tucson, Arizona, Fredericksburg, Virginia, Memphis, Tennessee, Little Rock, Arkansas and Palm Beach, Wellington, and Jensen Beach, Florida markets.

Maintenance of a strong balance sheet is a stated management goal and is vital to our retail strategy. The store program entails key business risks, including the realization of receivables and the coverage of both direct and contingent liabilities primarily associated with retail real estate. We have established decision criteria and business disciplines aimed at minimizing potential losses from these risks.

Given the difficult and somewhat unprecedented environment, we have had no choice but to take several important actions aimed at improving our results and liquidity in the short-term. These include:

- Aggressively working with certain licensees to close those stores that are underperforming, thereby limiting further exposure in our accounts receivable.
- Reducing our inventory levels to improve working capital and cash flow.
- Right-sizing our expense structure in both our wholesale and corporate retail divisions.
- Suspending our quarterly dividend.
- Delaying certain capital expenditures.

We will also continue to work diligently with our network of licensees to improve their operating results. With the existing and planned improvements in our retail program and our strong balance sheet, we believe we are well positioned not only to survive these turbulent times, but also to gain market share as some of our competitors exit the industry.

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Results of Operations—Quarter and nine months ended August 29, 2009 compared with quarter and nine months ended August 30, 2008:

Due to our fiscal calendar, the nine months ended August 29, 2009 included 39 weeks compared to 40 weeks for the nine months ended August 30, 2008. Net sales, gross profit, selling, general and administrative (SG&A) expense, and operating income (loss) were as follows for the periods ended August 29, 2009 and August 30, 2008:

	Quarter Ended				Nine Months Ended			
	August 29, 2009		August 30, 2008		August 29, 2009		August 30, 2008	
Net sales	$57,670	100.0%	$70,159	100.0%	$173,199	100.0%	$226,620	100.0%
Gross profit	25,986	45.1%	28,054	40.0%	75,162	43.4%	90,199	39.8%
SG&A (see note below)	25,965	45.0%	28,196	40.2%	78,932	45.6%	89,450	39.5%
Bad debt and notes receivable valuation charges	1,230	2.1%	4,051	5.8%	12,971	7.5%	6,059	2.7%
Unusual charges, net	1,777	3.2%	880	1.2%	3,450	2.0%	1,340	0.5%
Loss from operations	$ (2,986)	-5.2%	$ (5,073)	-7.2%	$ (20,191)	-11.7%	$ (6,650)	-2.9%

Note: For comparability purposes, we have presented our selling, general and administrative expenses above without consideration of the effects of the bad debt and notes receivable valuation charges.

On a consolidated basis, we reported net sales for the third quarter of 2009 of $57,670, a decrease of $12,489 or 17.8% from sales levels attained in the third quarter of 2008. Sales for the nine months ended August 29, 2009 were $173,199, a decrease of $53,421 or 23.6%.

Restructuring, asset impairment charges and unusual gain, net

The results for the nine months ended August 29, 2009 included several restructuring and other non-cash items including $1,777 for lease exit charges and $376 for the write-off of leasehold improvements associated with the closure of Company-owned stores in Lewisville and Arlington, Texas, and Alpharetta, Georgia. We also recorded a non-cash asset impairment charge of $258 to write-off the remaining leasehold improvements and a $285 lease exit charge associated with the closure of our retail office in Greensboro, North Carolina. In addition, we recorded a $434 non-cash impairment charge in accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", to write-down the carrying value of our long-lived assets associated with a nonperforming retail location. Lastly, we recorded $320 in severance charges associated with the downsizing announced in March of 2009.

The results for the nine months ended August 30, 2008 included unusual pretax items consisting of $1,418 of legal and other expenses for the proxy contest with Costa Brava Partnership III L.P., a $1,342 gain associated with the sale of our airplane and $624 of impairment charges and $640 of lease exit costs associated with the closure of one Company-owned and one licensee-owned store.

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The following table summarizes these net charges:

	August 29, 2009		August 30, 2008	
	Quarter	Year-to-Date	Quarter	Year-to-Date
Write-off of leasehold improvements	$ —	$ 1,068	$ 240	$ 624
Severance charges	—	320	—	—
Gain on sale of airplane	—	—	—	(1,342)
Lease exit charges	1,777	2,062	640	640
Proxy defense costs	—	—	—	1,418
	$1,777	$ 3,450	$ 880	$ 1,340

Segment Information

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of stores (independently-owned stores, Company-owned retail stores and partnership licensees) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both corporate and licensee owned stores.

Our retail segment consists of Company-owned stores. Our retail segment includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.

Our investments/real estate segment consists of our investments the Bassett Industries Alternative Asset Fund (“BIAAF”) and marketable securities, distributions in excess of affiliate earnings, primarily the International Home Furnishings Center (“IHFC”) and retail real estate related to licensee stores. Although this segment does not have operating earnings, income from the segment is included in other loss, net in our condensed consolidated statements of income and retained earnings.

The following is a discussion of operating results for our wholesale and retail segments:

Wholesale Segment

	Quarter Ended				Nine Months Ended			
	August 29, 2009		August 30, 2008		August 29, 2009		August 30, 2008	
Net sales	$41,771	100.0%	$59,466	100.0%	$134,731	100.0%	$190,766	100.0%
Gross profit	12,656	30.3%	17,654	29.7%	38,668	28.7%	56,748	29.7%
SG&A (see note below)	11,136	26.7%	14,598	24.5%	36,137	26.8%	48,130	25.2%
Bad debt and notes receivable valuation charges	1,230	2.9%	4,051	6.8%	12,971	9.6%	6,059	3.2%
Income (loss) from operations	$ 290	0.7%	$ (995)	-1.7%	$ (10,440)	-7.7%	$ 2,559	1.3%

Note: *For comparability purposes, we have presented our selling, general and administrative expenses above without consideration of the effects of the bad debt and notes receivable valuation charges.*

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Net sales for the wholesale segment were $41,771 for the third quarter of 2009 as compared to $59,466 for the third quarter of 2008, a decrease of 29.8%. Approximately 51% of wholesale shipments during the third quarter of 2009 were imported products compared to approximately 53% for the third quarter of 2008. Gross margins for the wholesale segment were 30.3% for the third quarter of 2009 as compared to 29.7% for the third quarter of 2008. This increase is primarily due to lower material costs as a result of negotiated price decreases from vendors, in addition to lower freight costs. Wholesale SG&A, excluding bad debt and notes receivable valuation charges, decreased $3,462 during the third quarter of 2009 as compared to 2008, due primarily to lower spending due to lower sales and continued cost cutting measures. We recorded $1,230 of bad debt and notes receivable valuation charges for the third quarter of 2009 as compared to $4,051 for the third quarter of 2008. This significant decrease in charges is primarily due to the Company working diligently with the licensees to control increases in accounts and notes receivable exposure.

Net sales for the wholesale segment were $134,731 for the nine months ended August 29, 2009 as compared to $190,766 for the nine months ended August 30, 2008, a decrease of 29.4%. Gross margins for the wholesale segment were 28.7% for the nine months ended August 29, 2009 as compared to 29.7% for the nine months ended August 30, 2008. This decrease is primarily due to lower realized margins on our wood furniture and certain discount programs designed to sell more furniture, partially offset by increased margins on our upholstered furniture due to its custom nature. Wholesale SG&A, excluding bad debt and notes receivable valuation charges, decreased $11,993 for the nine months ended August 29, 2009 as compared to the nine months ended August 30, 2008 due primarily to decreased wholesale spending due to lower sales and continued cost cutting measures. The Company recorded $12,971 of bad debt and notes receivable valuation charges for the nine months ended August 29, 2009, as compared to $6,059 during the nine months ended August 30, 2008, as our licensees have struggled to pay for the furniture shipped to them in this prolonged and severe recessionary environment.

Wholesale shipments by type:

	Quarter Ended				Nine Months Ended			
	August 29, 2009		August 30, 2008		August 29, 2009		August 30, 2008	
Wood	$20,490	49.1%	$31,083	52.3%	$ 68,044	50.5%	$ 101,329	53.1%
Upholstery	20,907	50.0%	27,168	45.7%	65,110	48.3%	86,995	45.6%
Other	374	0.9%	1,215	2.0%	1,577	1.2%	2,442	1.3%
Total	$41,771	100.0%	$59,466	100.0%	$ 134,731	100.0%	$ 190,766	100.0%

Retail Segment—Company-Owned Retail Stores

	Quarter Ended				Nine Months Ended			
	August 29, 2009		August 30, 2008		August 29, 2009		August 30, 2008	
Net sales	$28,484	100.0%	$24,004	100.0%	$77,887	100.0%	$74,529	100.0%
Gross profit	12,845	45.1%	10,803	45.0%	36,141	46.4%	34,115	45.8%
SG&A	14,830	52.1%	13,610	56.7%	42,793	54.9%	41,337	55.5%
Operating loss	$ (1,985)	-7.0%	$ (2,807)	-11.7%	$ (6,652)	-8.5%	$ (7,222)	-9.7%

Our Company-owned store network had sales of $28,484 in the third quarter of 2009 as compared to $24,004 in the third quarter of 2008, an increase of 18.7%. On a comparable store basis (stores open for more

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than one year), sales decreased 2.8%. Gross margins for the quarter were essentially flat when compared to the third quarter of 2008. Our gross margins for the third quarter of 2009 decreased 2.1 percentage points as compared to the second quarter of 2009 as we performed a fleet-wide inventory reduction sale which resulted in lower gross margins. SG&A increased $1,220 primarily due to corporate store acquisitions, partially offset by continued cost containment efforts during the quarter. On a comparable store basis, our operating loss was reduced by 32.8% to $1,512, primarily due to lower SG&A spending resulting from lower sales and our cost-containment efforts.

Our Company-owned store network had sales of $77,887 in the nine months ended August 29, 2009 as compared to $74,529 in the nine months ended August 30, 2008, an increase of 4.5%. On a comparable store basis, sales decreased 5.0%. Gross margins for the nine months ended August 29, 2009 increased 0.6 percentage points due to improved pricing and promotional strategies, partially offset by reduced margins from our inventory reduction sale. SG&A increased $1,456 primarily due to corporate store acquisitions, partially offset by continued cost containment efforts. As part of the store acquisitions during the nine months ended August 29, 2009, we did not acquire the existing delivery backlog at the time of acquisition for certain of the stores. Consequently, we incurred significant SG&A expenses (rent and administrative payroll) without a commensurate level of delivered sales. On a comparable store basis, our operating loss was reduced by 18.1% to $4,481, primarily due to lower SG&A spending resulting from lower sales and our cost-containment efforts.

Our retail segment includes the expenses of retail real estate utilized by Company-owned retail stores. Rental income and expenses from our properties utilized by independent licensees and partnership licensees are included in our investment and real estate segment.

Investment and Real Estate Segment and Other Items Affecting Net Loss

Our investments and real estate segment consists of our investments (BIAAF and marketable securities), distributions in excess of affiliate earnings and retail real estate related to licensee-owned stores. Although this segment does not have operating earnings, income (loss) from the segment is included in other loss, net in our condensed consolidated statements of operations and retained earnings. Our equity investment in IHFC is not included in the identifiable assets of this segment since it has a negative book value and is therefore included in the long term liabilities section of our condensed consolidated balance sheet.

Income and expense items for the quarter and nine months ended August 29, 2009 and August 30, 2008, are as follows:

	Quarter Ended		Nine Months Ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Loss from Alternative Asset Fund	$ (801)	$ (472)	$ (1,875)	$ (1,424)
Income (loss) from marketable securities	145	(129)	(648)	1,439
Income from unconsolidated affiliated companies, net	1,048	1,461	3,457	3,545
Interest expense	(543)	(529)	(1,641)	(1,881)
Loan and lease guarantee (expense) income	(554)	60	(2,428)	194
Real estate expense, net	(365)	(661)	(1,831)	(1,780)
Other	224	(475)	(364)	(553)
Other loss, net	$ (846)	$ (745)	$ (5,330)	$ (460)

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The BIAAF recorded a loss of $801 for the quarter ended August 29, 2009 due to decreases in the value of our investment in the DB Zwirn Special Opportunities Fund. The General Partner has advised us that this decrease is due to the magnitude of the level of redemption requests, which are requiring the fund to totally liquidate all of its underlying holdings at less than favorable values.

In accordance with SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*", we review our marketable securities to determine whether a decline in fair value of a security below the cost basis is other than temporary. Should the decline be considered other than temporary, we write down the cost basis of the security and include the loss in current earnings as opposed to recording an unrealized holding loss. Due to the continued decline in the financial markets during the first quarter of 2009, many of our holdings sustained significant losses. Consequently, we recorded $1,255 in losses in our consolidated statement of operations for the quarter ended February 28, 2009. Due to overall market gains during the quarters ended May 30, 2009 and August 29, 2009, we did not record a charge for other than temporary declines in the fair value of our investments.

Income from unconsolidated affiliated companies, net includes income from our investment in IHFC as well as income (loss) from our other equity method investment, Zenith Freight Lines, LLC ("Zenith"). We recognized income (loss) from IHFC and Zenith as follows:

	Quarter ended		Nine Months ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
IHFC	$ 979	$ 1,470	$ 3,187	$ 3,896
Zenith	69	(9)	270	(351)

Loan and lease guarantee expense consists of adjustments to our reserves for the net amount of our estimated losses on loan and lease guarantees that we have entered into on behalf of our licensees. We recognized expense of $554 and $2,428, respectively, for the quarter and nine months ended August 29, 2009 compared to income of $60 and $194, respectively, for the comparable 2008 periods to reflect the additional risk that we may have to assume the underlying obligations with respect to our guarantees.

Other income and expenses for the quarter and nine months ended August 29, 2009 include income of $456 associated with the receipt of a death benefit from a life insurance policy associated with our Supplemental Executive Retirement Income Plan.

Income taxes

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. During the fourth quarter of 2008, we recorded a $23,383 charge to establish a valuation allowance against substantially all of our deferred tax assets as we were in a cumulative loss position for the past three years, which is considered significant negative evidence as to whether our deferred tax assets will be realized. For the quarter and nine months ended August 29, 2009, a tax benefit on the losses generated was not recorded since the Company remained in a cumulative loss position, however, a tax benefit of $451 was recorded related to the reduction in income tax reserves resulting from the lapse of the statute of limitations on certain state unrecognized tax benefits, partially offset by the accrual of income taxes to be paid in certain states and penalties and interest associated with certain unrecognized tax benefits.

The effective income tax rate for the comparable quarter and nine month periods in 2008 was a benefit of 54% and 64%, respectively, and was different when compared to the statutory rate primarily due to exclusions for dividends received from our investment in IHFC.

Liquidity and Capital Resources

The Company is committed to maintaining a strong balance sheet in order to weather the current difficult industry conditions, to allow it to take advantage of opportunities as market conditions improve, and to execute its long-term retail growth strategies.

Due to the continued housing slump and deterioration in the major financial markets and the overall recessionary economic environment, consumer spending has decreased, resulting in significant financial losses for us and damaging the ability of certain of our licensees to generate sufficient cash flow in their businesses. Currently, we are aggressively pursuing expense reduction and cash preservation initiatives throughout all parts of the business to enhance our cash flow.

Operating cash flow is summarized as follows:

	Operating Cash Flow	
	2009	2008
3rd quarter	$ 944	$ (1,796)
2nd quarter	2,296	(2,147)
1st quarter	(5,056)	(8,574)
	$(1,816)	$(12,517)

We generated $944 in operating cash flow during the third quarter of 2009 by continued cost cutting efforts which began earlier in the year, bringing cash used in operating activities to $1,816 for the first nine months of 2009, as compared to $12,517 operating cash used during the first nine months of 2008, an 86% decrease. The net cash usage for the year is primarily due to the continued difficult environment at retail resulting in lower collections on accounts receivable.

We increased our overall cash position for the nine months ended August 29, 2009 by $13,369 primarily through $16,015 of investment redemptions and $2,811 in dividends from our investment in IHFC, partially offset by our operating cash flow deficit, dividend payments of $1,142 and net payments on the revolving credit facility of $1,000. In addition to the $17,146 of cash on-hand, we have investments of $18,514 consisting of $13,332 in marketable securities and $5,182 in the BIAAF. We expect to receive additional redemptions from the BIAAF of approximately $400 over the remainder of the year. In addition, we plan to decrease inventories over the next quarter through improved management and coordination with foreign suppliers. In anticipation of a debt refinancing for IHFC, it is likely that dividend distributions will decrease or be eliminated for the remainder of 2009. We do not believe that this will be materially detrimental to our overall liquidity. With the current level of cash on-hand coupled with the investment holdings and availability on the revolver, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Our revolving credit facility contains, among other provisions, certain defined financial requirements including a minimum level of Tangible Net Worth, as defined in the credit agreement. As disclosed in our Form 10-Q for the quarter ended February 28, 2009, we began discussions with our lender during the second

quarter to amend our credit facility, due to the fact we were in violation of that covenant as of February 28, 2009. We successfully obtained a waiver of the default and an amendment to the credit facility on October 6, 2009. The amendment provides for a variable interest rate of LIBOR plus 2.75% with a 4.25% minimum rate and resets the Tangible Net Worth requirement at a minimum of $95,000 for the remainder of fiscal 2009 and $90,000 for fiscal 2010. It decreases our total facility from $45,000 to $30,000. Borrowings under the facility, which matures November 30, 2010, totaled $18,000 and $19,000 at August 29, 2009, and November 29, 2008, respectively, and are secured by a pledge of certain marketable securities and substantially all of our receivables and inventories. After taking into effect the waiver and amendment the availability under the facility was $1,200 at August 29, 2009.

We currently have eight retail real estate properties that have been financed through commercial mortgages with interest rates ranging from 6.73% to 9.18%. These mortgages, with a total balance of $21,554, are collateralized by the respective properties with net book values totaling approximately $31,038 at August 29, 2009. Two of the mortgages mature in the first quarter of 2010 with another maturing in the second quarter of 2010. Collectively, the balance for these three mortgages at August 29, 2009 was $8,162. We are currently seeking to refinance these loans. Should we be unsuccessful, we will seek alternative financing or extension, modification and/or forbearance of payment by the stated maturity date. However, there can be no certainty that any of these may occur and should we be required to fund these payments on the maturity dates, it could have a material adverse effect on our liquidity.

We currently anticipate that total capital expenditures for the remainder of fiscal 2009 will be approximately $500 and will be used primarily for retrofits for the new prototype design at Company-owned stores and information systems to support e-commerce initiatives.

Receivables and Inventory

Cash collections on our accounts and notes receivable have a significant impact on our overall liquidity. We used $1,816 of cash in operating activities during the nine months ended August 29, 2009 due to the continued difficult environment at retail resulting in lower cash collections on accounts receivable as well as increased cash requirements to fund the January new product rollout.

These slow cash collections have resulted in increasing accounts and notes receivable, deteriorating accounts receivable aging with increases in our relative past due amounts, and a corresponding increase to our allowance for doubtful accounts. Our percentage of accounts receivable that are over 90 days past due has increased from approximately 15% at November 29, 2008 to approximately 25% at August 29, 2009 with the majority of that increase occurring in the first two quarters. As such, we recorded $12,971 of bad debt and notes receivable valuation charges for the nine months ended August 29, 2009 as compared to $6,059 during the nine months ended August 30, 2008. We also recorded $1,230 of bad debt and notes receivable valuation charges for the quarter ended August 29, 2009, significantly lower than any of the prior four quarters. This significant decrease in charges is primarily due to the Company working diligently with the licensees to control increases in accounts and notes receivable exposure. Past due balances on our notes receivable are less than 2% of the total balance as the majority of these notes are in an interest-only payment period.

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In response to slow collections, certain of our licensees have been placed on a temporary "cash before delivery" program for current orders that is designed to prevent any additional increase in the accounts receivable exposure. We expect the rate of cash collections to increase when the recessionary environment begins to subside such that our total receivables will begin to decrease. The following table reflects our accounts receivable and notes receivable and related bad debt reserves:

	August 29, 2009	November 29, 2008
Gross accounts receivable	$ 46,144	$ 48,780
Allowance for doubtful accounts	(10,358)	(7,987)
Net accounts receivable	$ 35,786	$ 40,793
Gross notes receivable	$ 21,491	$ 21,801
Allowance for doubtful accounts and discounts on notes receivable	(10,550)	(6,596)
Net notes receivable	$ 10,941	$ 15,205

Our accounts and notes receivable reserve and notes discount activity for the nine months ended August 29, 2009 is as follows:

	Accounts Receivable	Notes Receivable	Total
Balance at November 29, 2008	$ 7,987	$ 6,596	$14,583
Bad debt and note valuation charges	7,254	5,717	12,971
Write-offs	(4,883)	(1,674)	(6,557)
Discount amortization	—	(89)	(89)
Balance at August 29, 2009	$ 10,358	$ 10,550	$20,908

Our licensee review committee (LRC) consists of our CEO, CFO, Senior VP of Retail, VP of Licensed Retail, and Corporate Director of Credit. The LRC meets frequently to review licensee performance, typically reviewing a wide-range of licensee related issues, including licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee and its sales. Should a licensee have substantial past due amounts due to us, but is otherwise considered viable and likely to continue as a going concern, the committee has, in the past, decided to move all or a portion of the licensee's past due accounts receivable to a note receivable. We believed that the note receivable allowed the licensee to focus on keeping current and future amounts current, while continuing to meet its financial obligations to us. Due to continued liquidity issues with our licensees, we no longer believe this to be a prudent strategy and do not plan to convert additional past due receivables into long-term interest bearing notes in the foreseeable future.

As part of the improvement plans with one of our licensees, we converted $1,100 of past due trade accounts receivable and refinanced an existing note with a remaining balance of $224 into a $1,324 long-term note bearing interest at 4.75% during the quarter ended February 28, 2009. This note requires interest only payments through 2011 and interest and principal payments due monthly through its maturity on December 31, 2016. During the quarter ended May 30, 2009, we converted $550 and $250 of past due trade accounts receivable for two licensees to 4.75% long-term interest bearing notes. The $550 note requires interest only payments through March 16, 2012, and principal and interest payments due monthly through its maturity date of March 16, 2015. The $250 note requires interest only payments through March 16, 2011, with the remaining interest and principal due on April 16, 2011.

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The initial carrying value of the notes is determined using present value techniques which consider the fair market rate of interest based on the licensee's risk profile and estimated cash flows to be received. We considered the stated interest rates to be below market due to the overall lack of availability of credit in the financial markets. The following table presents summary fair value information at the inception of these notes:

Face Value	Discount Rate	Fair Value
$1,324	19.50%	$672
550	5.25%	539
250	19.61%	187

Our accounts and notes receivable are secured by the filing of security statements in accordance with the Uniform Commercial Code and/or real estate owned by the note holder and in some cases, personal guarantees by our licensees. Historically, we have not foreclosed on the property to satisfy the respective receivable. Our practice has generally been to work with the store owner to run a going out of business sale and use any proceeds to fund the remaining receivable. Our success with these events has varied. However, typically the amounts recovered have not been materially different from the carrying amount of the receivable. Consequently, we generally have not been required to record significant bad debt expenses upon the conclusion of the event.

Our investment in inventory affects our liquidity in several different ways. First, cash paid for raw materials, labor, and factory overhead for the manufacture or assembly of our domestic inventories is typically paid out well in advance of receiving cash from the sale of these inventories. Payments for our imported inventories are funded much further in advance of receiving cash from the sale of these inventories as compared to our domestically manufactured or assembled inventories. The length of our import supply chain necessitates complex forecasting of future demand levels and is highly judgmental. In economic downturns, the speed at which we can respond to decreasing demand is slowed, as we may have imported inventory in shipment or being manufactured at any given time. In addition, we may also have inventory commitments under purchase orders that have not begun the manufacturing process. Consequently, as inventories build temporarily during downturns or as we near new product roll-outs, our liquidity is reduced as we have more cash invested in our products. Second, the availability under our revolving credit facility is impacted by changes in our inventory balances. Lastly, if we fail to respond to changes in consumer tastes quickly enough, inventories may build and decrease our liquidity.

Our inventories consist of the following:

	August 29, 2009	November 29, 2008
Wholesale finished goods	$ 23,800	$ 29,092
Work in process	221	251
Raw materials and supplies	7,251	7,853
Retail merchandise	15,402	14,995
Total inventories on first-in, first-out method	46,674	52,191
LIFO adjustment	(6,674)	(7,393)
Reserve for excess and obsolete inventory	(2,360)	(2,505)
	$ 37,640	$ 42,293

We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand, market conditions and the respective valuations at

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LIFO. The need for these reserves is primarily driven by the normal product life cycle. As products mature and sales volumes decline, we rationalize our product offerings to respond to consumer tastes and keep our product lines fresh. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required. In determining reserves, we calculate separate reserves on our wholesale and retail inventories. Our wholesale inventories tend to carry the majority of the reserves for excess quantities and obsolete inventory due to the nature of our distribution model. These wholesale reserves primarily represent design and/or style obsolescence. Typically, product is not shipped to our retail warehouses until a consumer has ordered and paid a deposit for the product. We do not typically hold retail inventory for stock purposes. Consequently, floor sample inventory and inventory for delivery to customers account for the majority of our inventory at retail. Retail reserves are based on accessory and clearance floor sample inventory in our stores and any inventory that is not associated with a specific customer order in our retail warehouses.

Activity in the reserves for excess quantities and obsolete inventory by segment are as follows:

	Balance at November 29, 2008	Additions Charged to Expense	Deductions	Balance at August 29, 2009
Wholesale	$ 2,071	$ 1,848	$ (1,994)	$ 1,925
Retail	434	341	(340)	435
	$ 2,505	$ 2,189	$ (2,334)	$ 2,360

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2009 and do not anticipate that our methodology is reasonably likely to change in the future. A plus or minus 10% change in our inventory reserves would not have been material to our financial statements for the periods presented.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our 10-K for the fiscal year ended November 29, 2008 and Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our 10-Q/A for the quarter ended February 28, 2009.

Off-Balance Sheet Arrangements

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of both Company-owned and licensee stores. We have guaranteed certain lease obligations of licensee operators of the stores, as part of our retail expansion strategy. We also have guaranteed loans of certain of our dealers to finance initial inventory packages for these stores. See Note 12 to our condensed consolidated financial statements for further discussion of operating leases, lease guarantees and loan guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies

We are involved in various legal and environmental matters, which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk:

We are exposed to market risk for changes in market prices of our various types of investments. Our investments include marketable securities and an investment partnership (Alternative Asset Fund). Our marketable securities portfolio, which totaled $13,332, at August 29, 2009, is diversified among seven different money managers. As part of our current debt facility, we have pledged certain of our marketable securities as collateral. To the extent the value of the marketable securities falls below $16,000, our Borrowing Base, as defined, is decreased by 125% of the difference between $16,000 and the actual value of those securities.

The Bassett Industries Alternative Asset Fund L.P ("BIAAF") was organized under the Delaware Revised Uniform Limited Partnership Act and commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (the "General Partner") of the BIAAF. We and the General Partner are the only two partners. The objective of the BIAAF is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. The BIAAF includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed income securities and derivatives, may involve future settlements, which give rise to both market and credit risk.

The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest rates, market currency rates, and liquidity. Risks to these funds arise from possible adverse changes in the market value of such interests and the potential inability of counterparties to perform under the terms of the contracts. However, the risk to the Company is limited to the amount of the BIAAF investment in each of the funds.

Investment balances by fund are presented below.

	August 29, 2009	November 29, 2008
Styx Partners, L.P.	$ —	$ 13,461
HBK Fund, L.P.	3,783	6,022
DB Zwirn Special Opportunities Fund, L.P.	1,374	3,254
Cash and Other	25	316
	$ 5,182	$ 23,053

We have requested our general partner to attempt to liquidate all of our investments in the BIAAF. During the nine months ended August 29, 2009, we received $15,978 for liquidations associated with Styx Partners, L.P. and HBK Fund, L.P. Due to the level of redemption requests, we have been informed that the remainder of the investment in HBK Fund, L.P. should be redeemed over the next two years. We also have been informed that due to the magnitude of redemption requests on the DB Zwirn Special Opportunities Fund, L,P., it is likely that it will be three to four years before our investment is fully redeemed. The DB Zwirn Special Opportunities Fund has decreased in value during the nine months ended August 29, 2009. The General Partner has advised us that this decrease is due to the magnitude of the level of redemption requests, which are requiring the fund to totally liquidate all of its underlying holdings at less than favorable values. We do not believe that these extended redemption periods will be significantly detrimental to our overall liquidity. We expect to receive the total stated net asset value for the Zwirn investment, subject to any further change in the net asset value due to market variations.

Item 4. Controls and Procedures:

As described in Item 9A. Controls and Procedures in our 2008 Form 10-K, our CEO (principal executive officer) and CFO (principal financial officer) concluded that our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) ("Disclosure Controls") were not effective as of November 29, 2008, due to our management control processes being insufficient to ensure that certain non-routine accounting estimates and other transactions were accounted for correctly. Among other things, this control deficiency resulted in the need for two material adjustments being identified by our independent registered public accountants as part of the year-end audit process. One adjustment involved the recognition of losses on certain of our marketable securities where a significant portion of the decline in value of the investments was determined to be "other than temporary". This led to the recording of a $2,900 adjustment. The other adjustment involved our reserve for doubtful accounts where management had failed to adequately anticipate the extent to which the current economic and business conditions would accelerate the deterioration in, as well as anticipated future restructurings by, some of our retail licensees. This led to our recording a $1,100 increase to this reserve.

In addition, during the first and second quarter of 2009, the Staff of the Securities and Exchange Commission (the "SEC") performed a review of our Form 10-K for the year ended November 29, 2008 and subsequently our Form 10-Q for the quarter ended February 28, 2009. Among other items, the Staff identified issues with our initial valuation of notes receivable issued to our licensees (primarily for amounts converted from past due accounts receivable due from them) and our methodology for determining reserves for our accounts receivable, notes receivable, and loan guarantees. As a result of the SEC's comments, we reviewed our accounting policies and processes in these areas previously mentioned and determined that we should have recorded lower values for certain of our notes receivable upon inception and, subsequently, recorded additional reserves on those notes due to an error in how we determined an appropriate market rate of interest for those notes. In addition, we also concluded that we should have recognized revenue from certain customers on a cost recovery basis for shipments beginning in the first quarter of 2009 and that additional reserves for loan guarantees should have been established. Therefore, we recorded an additional $3,280 of net charges in the quarter ended February 28, 2009 to account for these lower note values, increased reserves and reduced revenue and filed an amended Form 10-Q for the quarter then ended.

The steps we are taking to remediate our management control processes with respect to the forgoing non-routine accounting estimates are as follows:

- *Reassess the assumptions used in certain accounting estimates.* We will continually challenge all assumptions inherent in our significant judgmental accounting estimates to ensure that those assumptions are reasonable based on the current environment and supportable within the current accounting literature. We will ensure a second level review is conducted for all such accounting estimates.
- *Proactively review for other new or changed non-routine transactions and challenge the accounting prior to the commencement of the period end closing process.* We will proactively review for new non-routine transactions and for non-routine transactions that may require an accounting process change due to new accounting pronouncements, changes in the business environment or changes in the Company. As business, regulatory and other matters evolve in the future, we will consult with our independent registered public accountant, other third party advisors, or the audit committee to ensure issues with accounting and financial reporting implications are addressed on a timely basis.

Although we believe these steps should improve our systems of disclosure controls, there can be no assurance at this time that these steps are or will be effective to remediate the deficiency described above.

PART I—FINANCIAL INFORMATION—CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
AUGUST 29, 2009
(Dollars in thousands except share and per share data)

Our CEO and interim CFO have evaluated the Disclosure Controls as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon their evaluation, our CEO and interim CFO concluded that the Disclosure Controls were not effective as of August 29, 2009. Except for management's efforts to implement the remediation steps outlined above, there have been no changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Safe-harbor, forward-looking statements:

The discussion in items 2 and 3 above contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as *"anticipates"*, *"believes"*, *"plans"*, *"estimates"*, *"expects"*, *"aimed"* and *"intends"* or words or phrases of similar expression. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements are listed in our Annual Report on Form 10-K for fiscal 2008 and include:

- competitive conditions in the home furnishings industry
- general economic conditions
- overall retail traffic levels and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- Bassett store openings
- store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies as they are implemented
- fluctuations in the cost and availability of raw materials, labor and sourced products (including fabrics from troubled suppliers)
- results of marketing and advertising campaigns
- information and technology advances
- ability to execute new global sourcing strategies
- performance of our marketable securities portfolio and our investment in BIAAF
- delays or difficulties in converting some of our non-operating assets to cash
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption
- effects of profit improvement initiatives in our domestic wood operations
- continued profitability of our unconsolidated affiliated companies, particularly IHFC and its ability to pay dividends

PART II—OTHER INFORMATION
BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES
AUGUST 29, 2009
(Dollars in thousands)

Item 1. Legal Proceedings

In 2004, the US Environmental Protection Agency (EPA) advised the Company that it had been identified as a potentially responsible party (PRP) at the Ward Transformer Superfund site in Wake County, North Carolina. EPA alleges that the Company is a responsible party because, prior to 1990, it sent transformers to the site for repair that contained certain polychlorinated biphenyls (PCBs) which were allegedly mishandled by the owner/operator of the site. Pursuant to a settlement agreement that the Company and several other PRPs (the "Initial PRP Group") entered into with EPA in 2005, the Initial PRP Group has paid for remediation work conducted at the Ward Transformer site. To date the Company has spent approximately $900 on the remediation of the site. The Company estimates that its share of the total liability for remediation of the site should be approximately $260. Through litigation and collection efforts by the Initial PRP Group, the Company intends to seek recovery from dozens of other PRPs for its costs in excess of $260.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

	Total Number of Shares Purchased	Avg Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
May 31, 2009—July 4, 2009	—	n/a	—	$ 0
July 5, 2009—August 1, 2009	—	n/a	—	$ 0
August 2, 2009—August 29, 2009	—	n/a	—	$ 0

(1) The Company's Board of Directors has authorized the repurchase of up to $60,000 in Company stock. This repurchase plan was announced on June 23, 1998. On March 17, 2008, the Board of Directors increased the repurchase plan by $20,000.

Item 3. Defaults Upon Senior Securities

The Company was in default of its Tangible Net Worth covenant in its revolving credit facility as of August 29, 2009. On October 6, 2009, the Company received an amendment from its lender to waive the covenant violation and amend the facility. The amendment provides for a variable interest rate of LIBOR plus 2.75% with a 4.25% minimum rate and resets the Tangible Net Worth requirement at a minimum of $95,000 for the remainder of fiscal 2009 and $90,000 for fiscal 2010. It also decreases the Company's total facility from $45,000 to $30,000.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 6. Exhibits

a. Exhibits:

Exhibit 3a—Articles of Incorporation as amended are incorporated herein by reference to the Exhibit to Form 10-Q for the fiscal quarter ended February 28, 1994.

Exhibit 3b—By-laws as amended are incorporated herein by reference to Exhibit 3 to Form 8-K filed on December 21, 2004.

Exhibit 4—Second Amendment and Waiver to Third Amended and Restated Credit Agreement and Omnibus Amendment to Guaranty and Note Purchase Agreements

Exhibit 31a—Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31b—Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32a—Chief Executive Officer's certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32b—Chief Financial Officer's certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

/s/ ROBERT H. SPILMAN, JR.

Robert H. Spilman, Jr.,
President and Chief Executive Officer
October 8, 2009

/s/ J. MICHAEL DANIEL

J. Michael Daniel,
Corporate Controller and Interim Chief Financial Officer
October 8, 2009

Exhibit 4

Execution Version

SECOND AMENDMENT AND WAIVER TO
THIRD AMENDED AND RESTATED CREDIT AGREEMENT AND OMNIBUS AMENDMENT
TO GUARANTY AND NOTE PURCHASE AGREEMENTS

THIS SECOND AMENDMENT AND WAIVER TO THIRD AMENDED AND RESTATED CREDIT AGREEMENT AND OMNIBUS AMENDMENT TO GUARANTY AND NOTE PURCHASE AGREEMENTS (this "Amendment") is made as of the 6th day of October, 2009, by and among BASSETT FURNITURE INDUSTRIES, INCORPORATED, a Virginia corporation (the "Borrower"), BRANCH BANKING AND TRUST COMPANY ("BB&T"), as agent (in such capacity, the "Agent") and Licensee Lender (as defined in the Credit Agreement identified below), the banks listed on the signature pages hereof (collectively referred to herein as the "Banks") and BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, LLC (formerly Bassett Furniture Industries of North Carolina, Inc.), THE E.B. MALONE CORPORATION ("Malone Corporation"), BASSETT DIRECT STORES, LLC (formerly Bassett Direct Stores, Inc.), BASSETT DIRECT NC, LLC, and BASSETT DIRECT SC, LLC (collectively referred to herein as the "Guarantors").

R E C I T A L S:

The Borrower, the Agent, the Guarantors and the Banks (including the Licensee Lender) have entered into that certain Third Amended and Restated Credit Agreement dated October 31, 2007, as amended by the First Amendment thereto dated as of August 7, 2008 (as so amended, the "Credit Agreement"; capitalized terms used in this Amendment which are not otherwise defined shall have the respective meanings assigned to them in the Credit Agreement). Pursuant to the terms of the Credit Agreement, the Borrower and BB&T, as Licensee Lender, have entered into each of the Guaranty and Note Purchase Agreements identified on Schedule 1 hereto (collectively, together with any other such Guaranty and Note Purchase Agreement executed and delivered in connection with the Credit Agreement, the "Licensee Loan Guarantees").

The Borrower and Guarantors have requested that the Agent and the Banks (i) amend the Credit Agreement to modify certain provisions of the Credit Agreement as more fully set forth herein and (ii) waive the Event of Default in existence under Section 5.35 of the Credit Agreement arising as a result of the Borrower's failure to comply with the minimum Consolidated Tangible Net Worth covenant for the Fiscal Quarters ended February 28, 2009, May 30, 2009 and August 29, 2009 (the "Existing Events of Default"). Subject to the terms and conditions in this Amendment, the Banks and the Agent have agreed to such waiver and amendments.

NOW, THEREFORE, in consideration of the Recitals and the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Guarantors, the Agent and the Banks (including the Licensee Lender), intending to be legally bound hereby, agree as follows:

SECTION 1. Recitals. The Recitals are incorporated herein by reference and shall be deemed to be a part of this Amendment.

SECTION 2. Amendments to Credit Agreement. The Credit Agreement is hereby amended as set forth in this Section 2.

SECTION 2.01. Amendments to Section 1.01. Section 1.01 of the Credit Agreement is hereby amended to:

(a) include the following new definition:

"Second Amendment Effective Date" shall have the meaning assigned to such term in the Second Amendment and Waiver to Third Amended and Restated Credit Agreement and Omnibus Amendment to Guaranty and Note Purchase Agreements dated October 6, 2009, by and among the Banks, the Agent, the Licensee Lender, the Borrower and the Guarantors.

(b) amend and restate the following definition to read as follows:

"Borrowing Base" shall mean, based on the most recent Borrowing Base Certification Report which as of the date of a determination of the Borrowing Base has been received by the Agent, an amount equal to: (A) Adjusted Debt, as of the date of determination, subtracted from (B) the sum of (i) an amount equal to 75% (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the face dollar amount of Eligible Accounts as at the date of determination; and (ii) an amount equal to: (a) 5% of the LIFO Reserve, as of the date of the determination of the Borrowing Base, subtracted from (b) 40% (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the dollar amount of the Eligible Inventory, valued at the lower of its cost or market value (as determined by the Agent in its sole discretion), as at the date of determination. The Agent shall also (x) hold and subtract from the Borrowing Base a reserve in an amount equal to 125% of the amount, if any, by which the fair market value of the Marketable Investments in the Borrower's Securities Account (as such terms are defined in Section 5.37) is less than $16,000,000 and (y) be entitled to hold and subtract any other reserve against the Borrowing Base it deems necessary as security for payment of the Notes, the obligations of the Guarantors under Article X of this Agreement, and the obligations of the Borrower under the Letter of Credit Agreements and the Licensee Loan Guarantees.

(c) delete the following definitions appearing therein: "Consolidated Comprehensive EBITDA"; "Consolidated Interest Expense"; and "EBITDA".

SECTION 2.02. Amendments to Section 2.06. Section 2.06 of the Credit Agreement is hereby amended as follows:

(a) by amending and restating Section 2.06(a) to read in its entirety as follows:

(a) "Applicable Margin" shall mean 2.75%.

(b) by amending and restating the first sentence of Section 2.06(b) to read in its entirety as follows:

During each Interest Period in which the Loan (excluding Swing Line Advances) is a Prime Rate Loan, such Prime Rate Loan shall bear interest on the outstanding principal amount thereof, for each day during the applicable Interest Period, at a rate per annum equal to the Prime Rate for such day plus the Applicable Margin; provided, however, that in no event shall the interest rate applicable to any such Prime Rate Loan be less than 4.25% per annum.

(c) by amending and restating the first sentence of Section 2.06(c) to read in its entirety as follows:

During each Interest Period in which the Loan is a Euro-Dollar Loan, such Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of: (1) the Applicable Margin, plus (2) the applicable Adjusted Monthly Libor Index for such Interest Period; provided, however, that in no event shall the interest rate applicable to any Euro-Dollar Loan be less than 4.25% per annum.

(d) by amending and restating Section 2.06(e) to read in its entirety as follows:

(e) Each Letter of Credit Advance shall bear interest on the outstanding principal amount thereof, payable on demand, for each day from the date such Letter of Credit Advance is made until paid in full at a rate per annum equal to the Default Rate applicable to Euro-Dollar Loans.

SECTION 2.03. Amendment to Section 2.07(a). Section 2.07(a) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(a) The Borrower shall pay to the Agent for the ratable account of each Bank a facility fee equal to the product of: (i) the aggregate of such Bank's Commitment (whether or not utilized) as then in effect (or, if the Commitments are no longer in effect, the aggregate outstanding principal amount of the Notes, Letter of Credit Advances, Licensee Loans and Undrawn Amounts) times (ii) 0.50%. Facility fees shall be payable in advance on the Second Amendment Effective Date and thereafter on each anniversary of the Second Amendment Effective Date until the Commitments have been terminated and the Obligations have been paid in full; provided; however, that such facility fee shall be pro rated for the year in which the Termination Date is scheduled to occur. The Borrower agrees that all such facility fees shall be fully earned and paid in immediately available funds when due and payable and shall be non-refundable under any circumstance.

SECTION 2.04. Amendment to Section 2.15(a). Section 2.15(a) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(a) The Borrower may, prior to the Termination Date, as set forth in this Section, request the Swing Line Lender to make, and the Swing Line Lender may in its sole and absolute discretion prior to the Termination Date make, Swing Line Advances to the Borrower, in an aggregate principal amount at any one time outstanding, not exceeding (i) prior to the Second Amendment Effective Date, Five Million Dollars ($5,000,000) and (ii) thereafter, Zero Dollars ($0); provided that the aggregate principal

amount of all Swing Line Advances, together with the aggregate principal amount of all outstanding Advances, Undrawn Amounts, Licensee Loans and Letter of Credit Advances, at any one time outstanding shall not exceed the aggregate amount of the Commitments of all of the Banks at such time.

SECTION 2.05. Amendment to Section 2.16. Section 2.16 of the Credit Agreement is hereby amended by adding the following clause (j) to the end of such Section:

(j) Notwithstanding any other provision of this Section 2.16, the Licensee Lender shall not, and shall have no obligation to, disburse any Licensee Loans at any time on or after the Second Amendment Effective Date. The Loan Parties acknowledge and agree that the termination of the Licensee Lender's commitment to make Licensee Loans shall not alter, modify or amend or otherwise affect in any way the Loan Parties' respective obligations set forth in this Agreement, any Licensee Loan Document or any other Loan Document.

SECTION 2.06. Amendment to Section 5.35. Section 5.35 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

SECTION 5.35. Minimum Consolidated Tangible Net Worth. Consolidated Tangible Net Worth will at no time be less than: (a) (i) for each Fiscal Quarter ending in Fiscal Year 2009, $95,000,000.00, and (ii) for each Fiscal Quarter ending in Fiscal Year 2010, $90,000,000.00; plus (b) 100% of the cumulative Net Proceeds of Capital Stock/Conversion of Debt received during any period after the Fiscal Year ended November 30, 2007, calculated quarterly.

SECTION 2.07. Amendment to Agent Commitment Amount. The Commitment amount of the Agent as set forth on the signature page of the Credit Agreement is hereby decreased from $45,000,000.00 to $30,000,000.00.

SECTION 2.08. Amendment to Exhibit A. Exhibit A to the Credit Agreement is hereby amended and restated to read as set forth on Exhibit A attached hereto.

SECTION 3. Amendment to Licensee Loan Guarantees. Each Licensee Loan Guarantee is hereby amended by amending and restating clauses (a) and (b) of the definition of "Guaranty Trigger Event" therein to read in their entirety as follows:

(a) any required payment of the Borrower with respect to the Guaranteed Obligations is twenty or more days past due during any calendar month, and, if such required payment were to remain unpaid as of the last day of that calendar month, such payment would on the last day of such calendar month be 30 or more days past due;

(b) the third occurrence of any required payment of the Borrower with respect to the Guaranteed Obligations being more than (i) prior to the Second Amendment Effective Date, 60 days past due and (ii) thereafter, 30 days past due;

SECTION 4. Acknowledgments; Additional Agreements.

(a) The Borrower, the Agent, the Guarantors and the Banks acknowledge and agree that: (i) prior to this Amendment, the Agent's Commitment, as a Bank, was equal to $45,000,000.00; and (ii) effective as of the Second Amendment Effective Date, such Commitment shall be decreased in the amount of $15,000,000.00, and (iii) after giving effect to such decrease, the Agent's Commitment, as a Bank, shall be equal to $30,000,000.00.

(b) The Borrower and Malone Corporation represent and warrant to Agent and Banks, and covenant and agree that, as of the date hereof, Malone Corporation does not, and, after the date hereof it will not, hold any Properties or other assets or conduct any business, and, as of the date hereof, it is not, and after the date hereof it will not be, a party to any material contractual obligations (other than the Loan Documents). Subject to compliance with the foregoing, Agent and Banks agree that, notwithstanding anything to the contrary in Sections 6.01(b), (c) or (d) of the Credit Agreement, the failure of Malone Corporation to be in good standing in Delaware shall not constitute a breach of the representations and warranties set forth in Section 4.01, 4.08 or 4.15 of the Credit Agreement or a failure to perform or observe the covenants set forth in Sections 5.15, 5.19 or 5.22 of the Credit Agreement.

SECTION 5. Waiver of Compliance with Section 5.35 of the Credit Agreement. Subject to the terms and conditions of this Amendment, the Banks hereby waive the Existing Events of Default. The foregoing waiver is limited solely to the Existing Events of Default, and nothing contained herein shall otherwise (i) modify the Borrower's or the Guarantors' respective obligations to comply fully with all duties, terms, conditions, or covenants contained in the Loan Documents or (ii) be deemed to constitute a waiver of any other rights or remedies any Bank or the Agent may have under any Loan Documents or under applicable law or at equity with respect to any matters. This is a one-time waiver, and, other than as set forth in this Amendment, the Banks and the Agent shall have no obligation to amend, modify or waive any provision of the Credit Agreement or any other Loan Document. The provisions and agreements set forth in this Section 5 shall not establish a custom or course of dealing or conduct between any Bank or the Agent and Borrower and the Guarantors.

SECTION 6. Conditions to Effectiveness. The effectiveness of this Amendment and the obligations of the Agent and Banks hereunder are subject to the following conditions, unless the Banks waive such conditions:

(a) receipt by the Agent from each of the parties hereto of a duly executed counterpart of this Amendment signed by such party;

(b) the Agent shall have received: (i) the duly executed Replacement Note (as defined below) for the account of the Agent; (ii) corporate resolutions and other evidence as the Agent may reasonably request, respecting the authorization, execution and delivery of this Amendment and the Replacement Note; (iii) an opinion from counsel to the Borrower and Guarantors in form and content satisfactory to the Agent; and (iv) all other documents that the Agent may reasonably request in connection with the transactions contemplated hereby;

(c) the fact that the representations and warranties of the Borrower and Guarantors contained in Section 8 of this Amendment shall be true on and as of the date hereof;

(d) the Agent shall have received: (i) the entire accrued and unpaid facility fee, calculated in accordance with Section 2.07(a) as in effect prior to the Second Amendment Effective Date *plus* the upfront facility fee in an amount equal to 0.50% of the aggregate Commitment (calculated after giving effect to this Amendment), (ii) the Amendment Fee (as defined below) and (iii) all other accrued

and unpaid fees and other amounts owing by the Borrower and the Guarantors under the Loan Documents, including all costs and expenses of the preparation, execution and delivery and closing of this Amendment (including any associated costs of counsel for the Agent); and

(e) all documents and legal matters in connection with the transactions contemplated by this Amendment shall be reasonably satisfactory in form and substance to the Agent and its counsel.

SECTION 7. No Other Amendment. Except for the amendments set forth above, the text of the Credit Agreement and the respective Licensee Loan Guarantees shall remain unchanged and in full force and effect. This Amendment is not intended to effect, nor shall it be construed as, a novation of any Loan Document. The Credit Agreement and this Amendment, and each Licensee Loan Guaranty and this Amendment, as the case may be, shall be construed together as a single agreement. On and after the Second Amendment Effective Date, all references to the Credit Agreement or the Licensee Loan Guarantees, as the case may be, contained in the Notes, the Security Agreement, the Securities Account Control Agreements (as each are defined in the Credit Agreement), and the other Loan Documents shall mean and include the Credit Agreement and the Licensee Loan Guarantees, as the case may be, as modified by this Amendment. Nothing herein contained shall waive, annul, vary or affect any provision, condition, covenant or agreement contained in the Credit Agreement or the Licensee Loan Guarantees, except as herein amended, nor affect nor impair any rights, powers or remedies under the Credit Agreement and the Licensee Loan Guarantees, all as hereby amended. The Banks and the Agent do hereby reserve all of their rights and remedies against all parties who may be or may hereafter become secondarily liable for the repayment of the Notes. The Borrower and Guarantors promise and agree to perform all of the requirements, conditions, agreements and obligations under the terms of the Credit Agreement and Licensee Loan Guarantees, all as heretofore and hereby amended and the other Loan Documents, the Credit Agreement and Licensee Loan Guarantees, all as amended, and the other Loan Documents being hereby ratified and affirmed. The Borrower and the Guarantors hereby expressly agree that the Credit Agreement and Licensee Loan Guarantees, all as amended, the Security Agreement, the Securities Account Control Agreements, and the other Loan Documents are in full force and effect. This Amendment shall constitute a Loan Document under the terms of the Credit Agreement.

SECTION 8. Representations and Warranties. The Borrower and Guarantors hereby represent and warrant to each of the Banks as follows:

(a) After giving effect to the waiver contemplated by Section 5 of this Amendment, no Default or Event of Default, nor any act, event, condition or circumstance which with the passage of time or the giving of notice, or both, would constitute an Event of Default, under the Credit Agreement or any other Loan Document has occurred and is continuing unwaived hereby or otherwise by the Banks on the date hereof.

(b) The Borrower and Guarantors have the power and authority to enter into this Amendment and the Replacement Note and to do all acts and things as are required or contemplated hereunder, or thereunder, to be done, observed and performed by them.

(c) This Amendment and the Replacement Note have been duly authorized, validly executed and delivered by one or more authorized officers of the Borrower and Guarantors and constitute legal, valid and binding obligations of the Borrower and Guarantors enforceable against them in accordance with their terms, provided that such enforceability is subject to general principles of equity.

(d) The execution and delivery of this Amendment and the Replacement Note and the performance hereunder and thereunder by the Borrower and Guarantors do not and will not require

the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over the Borrower or any Guarantor, nor be in contravention of or in conflict with the articles of incorporation, bylaws or other organizational documents of the Borrower or any Guarantor, or the provision of any statute, or any judgment, order or indenture, instrument, agreement or undertaking, to which the Borrower or any Guarantor is party or by which the assets or properties of the Borrower or any Guarantor are or may become bound.

(e) The Collateral Documents continue to create a valid security interest in, and Lien upon, the Collateral, in favor of the Agent, for the benefit of the Banks, which security interests and Liens are perfected in accordance with the terms of the Collateral Documents and prior to all Liens except as expressly permitted under the Credit Agreement.

(f) Schedule 1 sets forth a true, complete and correct list of all Licensee Loan Guarantees existing and in effect on the date hereof.

SECTION 9. Effective Date. This Amendment shall be effective as of October 6, 2009 (such date, the “Second Amendment Effective Date”).

SECTION 10. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement.

SECTION 11. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of North Carolina.

SECTION 12. Consent by Guarantors. The Guarantors consent to the foregoing amendments. The Guarantors promise and agree to perform all of the requirements, conditions, agreements and obligations under the terms of the Credit Agreement as hereby amended, said Credit Agreement, as hereby amended, being hereby ratified and affirmed. In furtherance and not in limitation of the foregoing, the Guarantors acknowledge and agree that the “Guaranteed Obligations” (as defined in the Credit Agreement) include, without limitation, the indebtedness, liabilities and obligations evidenced by the Replacement Note and the Loans made under the Agent’s Commitment as modified by this Amendment. The Guarantors hereby expressly agree that the Credit Agreement, as hereby amended, is in full force and effect.

SECTION 13. Further Assurances. The Loan Parties agree to promptly take such action, upon the request of the Agent, as is necessary to carry out the intent of this Amendment.

SECTION 14. Amendment Fee. The Borrower hereby agrees to pay to the Agent for the account of each Bank an amendment fee (the “Amendment Fee”) in the amount of $10,000.00, which Amendment Fee shall be fully earned and nonrefundable and due and payable on the date of this Amendment.

SECTION 15. Commitment. The Borrower, the Agent, the Guarantors and the Banks acknowledge and agree, as of the Second Amendment Effective Date, the aggregate amount of the Commitment of the Agent, as a Bank, is equal to $30,000,000.00. The Borrowers shall deliver to the Agent an Amended and Restated Third Amended and Restated Revolving Credit Note (in the amount of the Agent’s Commitment) (such Note is referred to herein as the “Replacement Note”), executed by the Borrower, in exchange for the Note of the Agent currently outstanding. On and after the Second Amendment Effective Date, all references to the Third Amended and Restated Revolving Credit Note

contained in the Credit Agreement, the Security Agreement, the Securities Account Control Agreements, and the other Loan Documents shall mean and include the Replacement Note as supplemented, modified, amended, renewed or extended.

SECTION 16. Severability. Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remainder of such provision or the remaining provisions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 17. Waiver of Claims or Defenses. The Borrower and the Guarantors represent that none of them has any set-offs, defenses, recoupments, offsets, counterclaims or other causes of action against the Agent or the Banks relating to the Loan Documents and the indebtedness evidenced and secured thereby and agree that, if any such set-off, defense, counterclaim, recoupment or offset otherwise exists on the date of this Amendment, each such defense, counterclaim, recoupment, offset or cause of action is hereby waived and released forever.

SECTION 18. Release of Claims. For and in consideration of the obligations set forth herein and intending to be legally bound hereby, the Borrower and the Guarantors do remise, release and forever discharge the Agent and the Banks, and their respective successors and assigns, of and from and all manner of actions, causes of actions, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims, and demands of whatsoever nature, in law, in equity or in admiralty, direct or indirect, known or unknown, matured or not matured, including for contribution and/or indemnity, that the Borrower or any Guarantor ever had or now has, including, without limitation, those with respect to any and all matters alleged or which could have been alleged, with respect to the Loan Documents or the making or administration of the Loans up to and including the date of this Amendment. The general release hereby entered into and executed by Borrower and the Guarantors is intended by Borrower and the Guarantors to be final, complete and total as to all matters that have arisen or occurred up to and including the date of this Amendment.

SECTION 19. Entire Agreement. This Amendment contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein. This Amendment supersedes all prior drafts and communications with respect hereto.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed and delivered, or have caused their respective duly authorized officers or representatives to execute and deliver, this Amendment as of the day and year first above written.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

By: ______________________________ (SEAL)
J. M. Daniel
Chief Financial Officer

By: ______________________________ (SEAL)
Jay R. Hervey
Vice President, General Counsel and Secretary

BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, LLC,

By: Bassett Furniture Industries, Incorporated,
its sole Member and Manager

By: ______________________________ (SEAL)
J. M. Daniel
Chief Financial Officer

By: ______________________________ (SEAL)
Jay R. Hervey
Vice President, General Counsel and Secretary

THE E.B. MALONE CORPORATION

By: ______________________________ (SEAL)
J. M. Daniel
Chief Financial Officer

By: ______________________________ (SEAL)
Jay R. Hervey
Vice President, General Counsel and Secretary

BASSETT DIRECT STORES, LLC,

By: Bassett Furniture Industries, Incorporated, its sole Member and Manager

By: ______________________________ (SEAL)
J. M. Daniel
Chief Financial Officer

By: ______________________________ (SEAL)
Jay R. Hervey
Vice President, General Counsel and Secretary

BASSETT DIRECT NC, LLC

By: Bassett Direct Stores, LLC, its sole Member and Manager

By: Bassett Furniture Industries, Incorporated, its sole Member and Manager

By: ______________________________ (SEAL)
J. M. Daniel
Chief Financial Officer

By: ______________________________ (SEAL)
Jay R. Hervey
Vice President, General Counsel and Secretary

BASSETT DIRECT SC, LLC

By: Bassett Direct Stores, LLC, its sole Member and Manager

By: Bassett Furniture Industries, Incorporated, its sole Member and Manager

By: ______________________________ (SEAL)
J. M. Daniel
Chief Financial Officer

By: ______________________________ (SEAL)
Jay R. Hervey
Vice President, General Counsel and Secretary

BRANCH BANKING AND TRUST COMPANY, as Agent, Issuing Bank, Licensee Lender and as a Bank

By: ______________________________ (SEAL)
Title: ______________________________

EXHIBIT A

AMENDED AND RESTATED
THIRD AMENDED AND RESTATED
REVOLVING CREDIT NOTE

$30,000,000

Winston-Salem, North Carolina
October 6, 2009

For value received, BASSETT FURNITURE INDUSTRIES, INCORPORATED (the "Borrower") promises to pay to the order of BRANCH BANKING AND TRUST COMPANY (the "Bank"), for the account of its Lending Office, the principal sum of THIRTY MILLION AND NO/100 DOLLARS ($30,000,000), or such lesser amount as shall equal the unpaid principal amount of each Advance made by the Bank to the Borrower pursuant to the Credit Agreement referred to below, on the dates and in the amounts provided in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of this Revolving Credit Note on the dates and at the rate or rates provided for in the Credit Agreement. Interest on any overdue principal of and, to the extent permitted by law, overdue interest on the principal amount hereof shall bear interest at the Default Rate, as provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in federal or other immediately available funds at the office of Branch Banking and Trust Company, 110 South Stratford Road, Winston-Salem, North Carolina 27104, or at such other address as may be specified from time to time pursuant to the Credit Agreement.

All Advances made by the Bank, the interest rates from time to time applicable thereto and all repayments of the principal thereof shall be recorded by the Bank and, prior to any transfer hereof, endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof; provided that the failure of the Bank to make, or any error of the Bank in making, any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement. This Note is secured by, among other security, the Collateral Documents, as the same may be modified or amended from time to time.

This Note is one of the Notes referred to in the Third Amended and Restated Credit Agreement dated as of October 31, 2007 among the Borrower, Bassett Furniture Industries of North Carolina, Inc., The E.B. Malone Corporation, Bassett Direct Stores, Inc., Bassett Direct NC, LLC and Bassett Direct SC, LLC, Branch Banking and Trust Company, as an Issuing Bank, Swing Line Lender, Bank, and as Agent, as amended by that certain First Amendment thereto dated as of August 7, 2008 and that certain Second Amendment and Waiver thereto dated October 6, 2009 (as the same may be further amended, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the prepayment and the repayment hereof and the acceleration of the maturity hereof.

The Borrower hereby waives presentment, demand, protest, notice of demand, protest and nonpayment and any other notice required by law relative hereto, except to the extent as otherwise may be expressly provided for in the Credit Agreement.

The Borrower agrees, in the event that this Note or any portion hereof is collected by law or through an attorney at law, to pay all reasonable costs of collection, including, without limitation, reasonable attorneys' fees.

IN WITNESS WHEREOF, the Borrower has caused this Amended and Restated Third Amended and Restated Revolving Credit Note to be duly executed under seal, by its duly authorized officer as of the day and year first above written.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

By: ______________________________(SEAL)
Title:

By: ______________________________(SEAL)
Title:

Exhibit 31a

CERTIFICATIONS

I, Robert H. Spilman, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bassett Furniture Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

October 8, 2009

/s/ ROBERT H. SPILMAN, JR.

Robert H. Spilman, Jr.
President and Chief Executive Officer

Exhibit 31b

CERTIFICATIONS

I, J. Michael Daniel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bassett Furniture Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 8, 2009

/s/ J. MICHAEL DANIEL

J. Michael Daniel
Corporate Controller and Interim Chief Financial Officer

Exhibit 32a

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-Q for the period ending August 29, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Robert H. Spilman, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT H. SPILMAN, JR.

Robert H. Spilman, Jr.
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Bassett Furniture Industries, Incorporated and will be retained by Bassett Furniture Industries, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32b

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Bassett Furniture Industries, Incorporated (the “Company”) on Form 10-Q for the period ending August 29, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I J. Michael Daniel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. MICHAEL DANIEL

J. Michael Daniel
Corporate Controller and Interim Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Bassett Furniture Industries, Incorporated and will be retained by Bassett Furniture Industries, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.